

# San José State University

## Lucas College and Graduate School of Business Accounting and Finance Department

### Taxation of Business Entities

#### BUS 223G - Fall 2018

|                            |  |
|----------------------------|--|
| <b>Instructor:</b>         | Joel Busch   |
| <b>Office Location:</b>    | Lucas Graduate School of Business  |
| <b>Telephone:</b>          | (408) 924-3494   |
| <b>Email:</b>              | Via <b>Canvas</b> Email  |
| <b>Office Hours:</b>       | 30 minutes before and after class and by appointment   |
| <b>Class Days/Time:</b>    | Wednesdays - 6:00 p.m. to 10:00 p.m.   |
| <b>Classroom:</b>          | Lucas School Silicon Valley Site<br>2933 Bunker Hill Lane - Suite 120<br>Santa Clara, CA 95054 |
| <b>(Co) Prerequisites:</b> | Bus 223A   |

#### Canvas Course Website

Course materials such as syllabus, handouts, PowerPoint slides, notes, assignment instructions, etc. may be found on the Canvas Learning Management System course login website at <http://sjsu.instructure.com>. You are responsible for regularly checking Canvas to learn of any course updates – including new messages, readings and assignments.

## Course Description

Income tax treatment of different types of business entities and their owners. Focuses on operations, reporting, formation, restructuring and termination. Selected special state and international tax rules, tax planning, and underlying tax policies also covered.

## Course Learning Outcomes

Upon completion of this course students will be able to:

CLO 1: Explain federal tax differences and similarities of business entities.

CLO 2: Apply basic tax rules on operation and formation of business entities for tax compliance and planning purposes.

CLO 3: Explain the historical, operational and policy reasons for the basic federal tax rules governing business entities.

CLO 4: Develop conceptual and analytic skills with real world applications.

CLO 5: Identify, understand and resolve complex and multijurisdictional tax issues within the context of our global economy and society.

CLO 6: Learn and acquire research skills for exploring both familiar and novel areas of the tax law and to communicate the findings using clear terms.

CLO 7: Appreciate tax policy issues and foundations of the tax law.

CLO 8: Understand the ethical implications of tax practice.

CLO 9: Develop skills for effective tax practice including keeping current, interacting with others, and career advancement.

## Required Texts/Readings

### Textbook:

The textbook required for this course is Maloney/Raabe/Hoffman/Young's South-Western Federal Taxation **2019: Comprehensive, 42nd edition** with the REQUIRED LMS version of the CengageNow (v2).

There are three specific options to purchase the correct version of this textbook:

[Option #1] A **loose-leaf** version of the textbook/CengageNow bundle can be purchased at the SJSU bookstore on the main campus, or

[Option #2] An **electronic-only** version of the textbook/CengageNow bundle can be purchased at the SJSU bookstore, on the main campus

Or

[Option #3] The textbook required for this course, Maloney/Raabe/Hoffman/Young's South-Western Federal Taxation **2019: Comprehensive, 42nd edition** with the REQUIRED LMS version of the CengageNow (v2) online homework system is included in Cengage Unlimited, a subscription service providing access to ALL Cengage ebooks and digital learning products—over 22,000—for **\$119.99 per term** (extended subscriptions also available). You can purchase access to Cengage Unlimited in the bookstore, or at [www.cengage.com](http://www.cengage.com).

(Note that if you purchase an electronic-only / pure-digital version of this book you will be required to bring your laptop or smartphone (capable of viewing the online textbook) to every class session).

### Other Reading Sources

*Note* – Please see the detailed reading instructions in the class session calendar below.

[All materials outside of the Cengage textbook are available online or via your online SJSU library account]

Note: Primary reading for this course also includes Federal and California statutes, regulations and case law.

- BNA Portfolio 1550 – Choice of Entity – An Overview of Tax and Non Tax Considerations
- BNA Portfolio 750 – Corporate Overview
- IRS Publication 334 (Tax Guide for Small Businesses): <http://www.irs.gov/pub/irs-pdf/p334.pdf>
- IRS Business Structures website - <http://www.irs.gov/Businesses/Small-Businesses-&Self-Employed/Business-Structures>  
IRS S Corporation Compensation and Medical Insurance Issues: <http://www.irs.gov/Businesses/Small-Businesses-&Self-Employed/S-Corporation-Compensation-and-Medical-Insurance-Issues>
- IRS Schedule C Small Business Workshop Video:  
<http://www.irsvideos.gov/SmallBusinessTaxpayer/virtualworkshop/Lesson2>
- California Property Tax – An Overview (BOE Pub. 29):  
<http://www.boe.ca.gov/proptaxes/pdf/pub29.pdf>
- Your California Seller’s Permit (California Sales/Use Tax)  
(CDTFA Pub. 73 – Oct. 2017 Edition): <http://www.cdtfa.ca.gov/formspubs/pub73.pdf>
- California FTB – 2017 Partnership Tax Booklet:  
[https://www.ftb.ca.gov/forms/2017/17\\_565bk.pdf](https://www.ftb.ca.gov/forms/2017/17_565bk.pdf)  
Focus on: When and where to file, penalties and interest, definitions, who must file, annual tax, and cancelling a limited partnership or limited liability partnership. Skim the remainder.
- California FTB – Limited Liability Company (LLC) Filing Information Publication (FTB 3556):  
<https://www.ftb.ca.gov/forms/misc/3556.pdf>
- California FTB – Overview of Withholding on Pass-Through Entity Owners:  
<https://www.ftb.ca.gov/individuals/withholding/nonwage-withholding/partnerships-and-limited-liability-companies.shtml>
- California FTB Publication 1017 (California Resident and Non-Resident Withholding):  
<https://www.ftb.ca.gov/forms/misc/1017.pdf>
- California FTB – 2017 Corporation Tax Booklet:  
[https://www.ftb.ca.gov/forms/2017/17\\_100bk.pdf](https://www.ftb.ca.gov/forms/2017/17_100bk.pdf)  
Focus on: Franchise or Income Tax; Tax Rates; Minimum Franchise Tax; When to File; Extension of Time to File; Electronic Payments;

Estimated Tax; New/Commencing Corporations; Penalties; and Suspension/Forfeiture. Skim the remainder.

- California FTB – 2017 S Corporation Tax Booklet:  
[https://www.ftb.ca.gov/forms/2017/17\\_100sbk.pdf](https://www.ftb.ca.gov/forms/2017/17_100sbk.pdf)  
Focus on: Franchise or Income Tax; Tax Rate and Minimum Franchise Tax; Elections and Terminations; When to File; Extension of Time to File; Electronic Payments; (CA Specific 10-Year) Built-In-Gains; Estimated Tax; New/Commencing Corporations; Penalties; and Suspension/Forfeiture. Skim the remainder.
- California Franchise Tax Board’s Guide to Forms of Ownership:  
<https://www.ftb.ca.gov/forms/misc/1123.pdf>
- AICPA Comparison of Business Entities:  
<https://www.aicpa.org/interestareas/tax/resources/taxplanning/downloadabledocuments/comparison%20of%20business%20entities.pdf>
- Joint Committee on Taxation, *Selected Issues Relating To Choice Of Business Entity* (7/27/12): <https://www.jct.gov/publications.html?func=startdown&id=4478>
- Congressional Budget Office, *Taxing Businesses Through the Individual Income Tax* (Dec. 2012): <https://www.cbo.gov/sites/default/files/112th-congress-2011-2012/reports/43750-TaxingBusinesses2.pdf>
- FTB Pub. 1093: <https://www.ftb.ca.gov/forms/misc/1093.pdf>
- Additional materials may be delivered in class or posted on Canvas
- Use of RIA, CCH, TTR and BNA for research and background reading to supplement above readings.

## MST Program Administrative Guidelines

- Please see the 2017/2018 New Student Handbook at:  
[http://www.sjsu.edu/lucasgsb/docs/MST\\_New%20Student%20Handbook%20Fall%202017\\_rev\\_111417.pdf](http://www.sjsu.edu/lucasgsb/docs/MST_New%20Student%20Handbook%20Fall%202017_rev_111417.pdf)

## Assignments and Grading Policy

**Reading and Viewing Assignments:** Reading and video viewing assignments have been scheduled throughout the class term. It is expected and mandatory that the students have completed the assigned reading and watched the assigned videos prior to class.

**Homework:** Homework assignments are assigned throughout the course.

The primary purposes for the homework assignments are to assist you in understanding the course subjects and to prepare you for the exam. All homework assignments must be taken and submitted using the online CengageNow system.

Only with advanced consent of the instructor and under very limited circumstances may homework

assignments be turned in other than through the CengageNOW online system. As such, **you are responsible for ensuring that you purchase the CengageNOW system in sufficient time before the first (and subsequent) assignments are due.**

You will normally receive your scores immediately after you complete each homework assignment. Unless instructed otherwise, you can re-take the assignment as many times as you need to up until the due date of the assignment until you reach a 100% score to receive full credit for the homework assignment. Homework scores with less than a 100% score and those turned in late are subject to point reductions. Late submissions of homework will only be allowed with consent by the instructor. If no consent is given by the instructor, your score for that particular homework assignment will be zero. For some homework assignments where an alternative scoring system to that stated above is in place, an announcement will be made in class and/or posted on the Canvas website.

**Quizzes:** There will be four (4) online quizzes and one (1) in-class quiz during the semester.

The online quizzes will be taken online on Canvas. You will have two attempts at each quiz. The highest score of the two attempts will be used as your score for that particular quiz. Late submissions of quizzes may only be done with permission from the instructor and are subject to a deduction of points.

**The online quizzes must be undertaken on an individual basis – they are not group quizzes. It is against MST and University policy to share answers among students (current, former or future).**

**No quiz work (either online or in-class) is to be completed after the quiz end time. Any student undertaking quiz work (including filling-in scantron boxes – if applicable) after the quiz period has ended is subject to a zero score for the quiz and additional disciplinary actions pursuant to University policies.**

The one (1) in-class quiz will be taken (unless stated otherwise) using a Scantron form (Version 882-E).

**Exams:** A final examination will be administered during the final week of class. One page of notes (not larger than 8.5" x 11", double-sided) will be allowed. The exam will be a combination of multiple-choice and written responses, unless stated otherwise. For any multiple-choice questions you must choose the best answer to each question to be awarded points for that particular question. Unless stated otherwise, *all submitted multiple-choice exam answers will require the use of a Scantron form (Version 882-E).*

**It is against MST and University policy to share answers among students (current, former or future). No exam work is to be completed after the exam has ended. Any student undertaking exam work (including filling-in scantron boxes – if applicable) after the exam has ended is subject to a zero score for the quiz and additional disciplinary actions pursuant to University policies.**

**Projects:** There will be three (3) graded projects during the course. The projects may be required to be turned in during a class session or a specified date and time outside of class hours and may be assigned as an individual or group project by the instructor. Projects may neither be undertaken with other students if assigned as an individual project nor with anybody outside of the assigned group if assigned as a group project.

**Grades:** Course grades will be determined on the basis of total points earned in the class. Please see below for additional information on grading:

|                                  |                          |                         |
|----------------------------------|--------------------------|-------------------------|
| <b>CengageNow Homework (7)</b>   | <b>70 points</b>         | <b>(10 points each)</b> |
| <b>Canvas Online Quizzes (4)</b> | <b>40 points</b>         | <b>(10 points each)</b> |
| <b>Projects</b>                  | <b>30 points</b>         | <b>(10 points each)</b> |
| <b>In Class Quiz</b>             | <b>20 points</b>         |                         |
| <b>Final Exam</b>                | <b><u>240 points</u></b> |                         |
| <b>Total Possible Points</b>     | <b>400 points</b>        |                         |

Grades will follow the pattern of 90% or higher for an A, 80% or higher for a B, 70% or higher for a C, etc. Plus and minus grades will be used for scores within two percentage points (rounded) of the grade breakpoint (for example, 92% for an A- grade). I may lower the percentage required to earn a certain grade, however, I will not raise the percentage.

**Class Participation:** While you are encouraged to ask or answer questions in class, points will not be awarded for class participation.

### **University Policies**

Per University Policy S16-9, university-wide policy information relevant to all courses, such as academic integrity, accommodations, etc. will be available on Office of Graduate and Undergraduate Programs' [Syllabus Information](http://www.sjsu.edu/gup/syllabusinfo/) web page at: <http://www.sjsu.edu/gup/syllabusinfo/>

### **Lucas College and Graduate School of Business:**

**Mission:** We are the institution of opportunity in Silicon Valley, educating future leaders through experiential learning and character development in a global business community and by conducting research that contributes to business theory, practice and education.

## Taxation of Business Entities

**Bus. 223G – Fall 2018**

**Mondays 6:00 p.m. to 10:00 p.m.**

(SCHEDULE IS SUBJECT TO CHANGE WITH FAIR NOTICE)

(Any changes will be announced in class and/or on Canvas)

### Course Schedule

| C<br>l<br>a<br>s<br>s | Date | Class Topics   | Reading / Viewing Due Before<br>Class<br><br>(See links / references above<br>under “Readings”)   | Homework and<br>Other Activities to<br>Complete Before<br>Class  |
|-----------------------|------|--|---|--|
| 1                     | 9/19 | <p>Introduction to the course and topic</p> <p>What is a business entity – incl. key elements and definitions</p> <p>Reasons for variety of forms of business entities</p> <p>Overview of history and tax differences among entities</p> <p>Formation of business entities – legal perspectives</p> <p>Finding the federal tax rules for each entity form</p> <p>Trends in usage of entity types</p> <p>Introduction to Property tax and Sales/Use tax for businesses in California.</p> | <p>1) Textbook: Sections 15-1a; 15-1b; 15-1c and 15-1d; <i>Skim</i> Sect. 22-5</p> <p>2) AICPA Comparison of Business Entities</p> <p>3) Skim links on IRS Business Structures website</p> <p>4) Joint Committee on Taxation, <i>Selected Issues Relating To Choice Of Business Entity</i></p> <p>5) Congressional Budget Office, <i>Taxing Businesses Through the Individual Income Tax:</i></p> <p>6) California Franchise Tax Board’s Guide to Forms of Ownership</p> <p>7) California Property Tax – An Overview (BOE Pub. 29) {Through Pg. 17 – <u>skip</u> Timber &amp; Yield Tax}</p> <p>8) Your California Seller’s Permit (California Sales/Use Tax – CDTFA Pub. 73)</p> <p>9) Cal. Rev. &amp; Tax §§64(c); 441; 443; 453; 469; 470; 6019; 6367</p> <p>10) Cal. Reg. 462-180(d)(1)</p> | <p>1) Register for your online account at CengageBrain.com</p> <p>2) Register for the CengageNow online system</p> |

| C<br>l<br>a<br>s<br>s | Date | Class Topics   | Reading / Viewing Due<br>Before Class<br><br>(See links / references<br>above under "Readings")   | Homework and<br>Other Activities to<br>Complete Before<br>Class |
|-----------------------|------|--|---|---|
| 2                     | 9/26 | <p><b>Sole Proprietorships</b> – formation, operation, termination, special rules, tax compliance; tax planning, tax policy considerations and excess business losses</p> <p>Self-employment tax; Clarification of Schedule C vs. Schedule E real estate activities; Spousal Joint Ventures</p> <p>Tax information returns</p> <p>Employee vs. Independent Contractor – including in the gig economy</p> | <p>1) Textbook: Sections 4-5b; 6-1c; 7-5a; 8-4; Schedule C Form Example in Sect. 8-5; 9-1; 9-3b; 9-6c; 12-5b; and 12-5c (only the ¶ immediately after Example 36)</p> <p>2) Textbook: <i>Skim</i> Sections 6-3a; 6-3b; 6-3e and 9-4</p> <p>3) IRC §§162; 274(a),(e),(k) and (n); 461(l); 469(a)(1)(A),(a)(2), (b), (c)(1), (c)(2) and (h); 1401; 3101(a) and (b)(1); 3111(a) and (b)(1); and 6041</p> <p>4) Skim IRC §§469(c)(7) and (i)</p> <p>5) Treas. Reg. §§ 1.6041-1; 1.6041-3 &amp; 1.183-2(b)</p> <p>6) <i>IRS v. Robert P. Groetzing</i> (87-1 USTC ¶ 9191)</p> <p>7) IRS Publication 334: Tax Guide for Small Businesses (Chapters 1 and 10; Chapter 5 – Real Estate Rents section only)</p> <p>8) Watch IRS Schedule C Small Business Workshop Video<br/>(For video - focus on Referenced Forms; Publications as well as the Self-Employment &amp; Estimated Tax Sections)</p> <p>9) Supplemental Reading Posted in Canvas</p> | <p>Online Canvas Quiz #1</p> <p>CengageNOW Homework Set #1</p>  |



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|---|------|--|---|--|
| 3 | 10/3 | <p><b>Partnerships and LLCs</b> – formation, operation, restructuring, termination, special rules, tax planning, tax policy considerations</p> | <p>1) Textbook – Sections 21-1 through 21-4 (<i>skip</i>: the Economic Effect and Sustainability sections in Sect. 21-3b)</p> <p>2) Textbook - <i>Lightly skim</i> Sections 14-2a; 14-8b and 14-8c (capital vs. ordinary income vs. Sect. 1231 assets)</p> <p>3) IRC §§ 83(a); 195; 465; 469; 701-709; 721-723; 731; 734; 741; 751-752; 754; 761; 1001(a), (b) and (c); 1402(a); 6063; 6698 and 7701(a)(2)</p> <p>4) Treas. Reg. §§1.6031(a)-1(a) and –(e)</p> <p>5) Rev. Proc. 84-35</p> |  |
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|---|-------|---|--|--|
| 4 | 10/10 | <p><b>Partnerships and LLCs (Continued)</b> – formation, operation, restructuring, termination, special rules, tax planning, tax policy considerations</p> <p>California reporting – including California withholding and California LLC, LP and LLP taxes and fees</p> | <p>1) Textbook: Sections 21-5 through 21-8 (<i>skip</i> the Profits Interest Received in Exchange for Services in Section 21-2b; <i>skip</i> Section 21-6b)</p> <p>2) Calif. Rev. &amp; Tax. §§ 17851; 17935-17936; 17941; 17948; 18567; 18633(a) &amp; (b); 18633.5; 19131 and 19172</p> <p>3) Calif. Regs. 23038(b)-1 and 23038(b)-3</p> <p>4) 2017 Partnership Tax Booklet (See details above in Texts/Readings)</p> <p>5) California FTB – Limited Liability Company (LLC) Filing Information Publication (FTB 3556)</p> <p>6) <i>IRS v. Culbertson</i>, 337 US 733 (1949)</p> <p>7) California FTB – Overview of Withholding on Distributions to Non-California Partners and LLC Members</p> <p>8) California FTB – Publication 1017 (Pages 14-17 - Domestic Pass-Through Entities Section: Partnership and LLCs)</p> | <p>CengageNOW Homework Set #2</p> <p>Canvas Online Quiz #2</p> |
|---|-------|---|--|--|

| C<br>l<br>a<br>s<br>s | Date  | Class Topics  | Reading / Viewing Due Before Class<br>(See links / references above under<br>“Readings”)  | Homework and<br>Other Activities to<br>Complete Before<br>Class |
|-----------------------|-------|---|---|---|
| 5                     | 10/17 | <b>C Corporations</b> –<br>formation, operation,<br>termination, special rules –<br>including the business<br>interest expense limitation,<br>tax compliance; tax<br>planning, and tax policy<br>considerations | 1) Textbook – Sections 17-1c; 17-<br>1d (skip capital gains and losses<br>for individuals); 17-1f; 17-1h; 17-<br>1i; 17-1j; 17-1k; 17-2a; 18-1 and<br>18-2<br><br>2) IRC §§1(h)(11); 163(j); 11;<br>301; 312; 316(a); 331; 351; 448;<br>531 & 3121(d)(1)<br><br>3) Treas. Reg. §§ 301-7701-2(b);<br>301-7701-3(a); 1.316-1(a);<br>31.3121(d)-1(b) and 31.3401(c)-<br>1(f)<br><br>4) <i>Eberl’s Claim Service, Inc. v.</i><br><i>IRS</i> (2001-1 USTC ¶50,396)<br><br>5) Joint Committee on Taxation, <i>Selected</i><br><i>Issues Relating to Choice Of Business</i><br><i>Entity</i> (Pages 19-21) | CengageNOW<br>Homework Set<br>#3                                |

|   |       |  |   |   |
|---|-------|--|---|---|
| 6 | 10/24 | <p><b>C Corporations</b><br/>(Continued) –<br/>Continuation of Federal rules – including dividend and non-dividend distributions with a strong emphasis and focus on Earnings and Profits (E&amp;P)</p>  | <p>1) Textbook: Sect. 17-2c; 19-1 through 19-3 (<i>skip</i> Stock Rights in Sect. 19-3e)<br/>2) IRC §§243; 246; 354; 361; 368; and 381<br/>3) Treas. Reg. §§1.368-1;1.368-2<br/>4) <i>Louangel Holding Corp., v. Anderson</i>, 15 AFTR 1 (9 F. Supp. 550), DC-NY (1934)</p>   | CengageNOW Homework Set #4                              |
| 7 | 10/31 | <p><b>C Corporations</b><br/>(Continued)<br/><br/>Federal taxation of C corporations (continued)<br/><br/>California taxation of C corporations<br/><b>S Corporations</b> – formation, operation, termination, special rules, tax planning, tax policy considerations<br/><br/>The Qualified Business Income (Section 199A) Deduction for Certain Non-C Corp. Business Owners (Part I)</p> | <p>1) Textbook: Sections 20-1 through 20-3; Chapter 22 (Skip LIFO recapture tax in Sect. 22-3h)<br/>2) Textbook: Sections 15-2 to 15-3<br/>3) IRC §199A<br/>4) IRC §§1361 - 1362; 1366 – 1367<br/>4) Calif. Rev. &amp; Tax. §§18601(a); 23101; 23114; 23151; 23153 and 24451<br/>5) Proposed Treas. Reg. §§ 1.199A-1 through 1.199A-5<br/><br/>6) IRS Notice 2018-64<br/>7) California FTB 2017 Corporation Tax Booklet (See details above in Texts/Readings)<br/><br/>8) IRS S Corporation Compensation and Medical Insurance Issues<br/><br/>9) Supplemental Reading Posted on Canvas</p> | CengageNOW Homework Set #5<br><br>Canvas Online Quiz #3 |

|    |       |  |  |   |
|----|-------|--|--|---|
| 8  | 11/7  | <p><b>S Corporations (Continued)</b></p> <p>California taxation of S corporations</p> <p>////////////////////////////////////</p> <p>The Qualified Business Income (Section 199A) Deduction for Certain Non-C Corp. Business Owners (Continued)</p> <p>Excess Business Losses from Partnerships and S Corporations</p> <p>Ethical considerations of representing entities and their owners</p> <p><b>*** In-Class Quiz ***</b></p> | <p>1) Textbook – Section 7-5b</p> <p>2) 2017 California S Corporation booklet (See details above in Texts/Readings)</p> <p>3) IRC §§ 461(l)(4); 482 &amp; 511-513</p> <p>4) Treas. Reg. §§ 1.513-1; 1.511-2(a)(2) and 1.513-2(a)</p> <p>5) BNA Portfolio 1550 – Sections 1550.04.A.1(a) and (b); and 1550.04.A.2</p> <p>6) BNA Portfolio 750, Section VIII</p> <p>7) Cal. Rev. &amp; Tax. §§23800; 23800.5; 23801; and 23802</p> <p>8) FTB Pub. 1093</p> <p>9) Supplemental Reading Posted on Canvas</p> | <p>CengageNOW Homework Set #6</p> <p>Canvas Online Quiz #4</p> <p><b>*In-Class Quiz *</b></p> |
| 9  | 11/14 | <p>Introduction to international tax issues</p> <p>Introduction to corporate reorganizations – including California sales/use and property tax issues and planning points</p> <p>Introduction to C Corp. consolidated tax returns</p> <p>Tax Planning for Entity Conversions</p> <p>Review for Final Exam</p>  | <p>1) Textbook – Sections 17-2d; 20-5; 25-1; and 25-3d (up to Preemptive Transfer Pricing Arrangements)</p> <p>2) Cal. Rev. &amp; Tax §6006.5(b); Cal. Reg. 1595(b)(2)</p> <p>3) Cal. Rev. &amp; Tax §62(a)(2)</p> <p>4) BNA Portfolio 1550 – Section 1550.05</p>  | <p>CengageNOW Homework Set #7</p>   |
|    | 11/21 | No Class   |  |   |
|    | 11/28 | No Class - Thanksgiving  |  |   |
| 10 | 12/5  | <b>Final Exam</b>  |  |   |